

Sample Multiple-Choice Questions

Circle the letter of each correct answer.

1. A downward sloping demand curve can be explained by
- I. diminishing marginal utility.
 - II. diminishing marginal returns.
 - III. the substitution effect.
 - IV. the income effect.

- (A) I only
- (B) II only
- (C) I and III only
- (D) I and IV only
- (E) I, III and IV only

2. Which of the following will *not* change the demand for oranges?

- (A) A change in consumers' incomes
- (B) A change in the price of grapefruits, a substitute for oranges
- (C) A change in the price of oranges
- (D) A change in consumers' taste for oranges
- (E) An expectation that the price of oranges will increase in the future

3. If there is an increase in demand for a good, what will most likely happen to the price and quantity of the good exchanged?

- | Price | Quantity |
|---------------|-----------|
| (A) No change | No change |
| (B) Increase | Increase |
| (C) Increase | Decrease |
| (D) Decrease | Increase |
| (E) Decrease | Decrease |

4. If hot dogs are an inferior good, an increase in income will result in

- (A) an increase in the quantity demanded for hot dogs.
- (B) an increase in the demand for hot dogs.
- (C) a decrease in the quantity demanded for hot dogs.
- (D) a decrease in the demand for hot dogs.
- (E) no change in the quantity demanded for hot dogs.

5. An increase in the price of gasoline will cause the demand curve for tires to shift in which direction?

- (A) To the left, because gasoline and tires are substitutes
- (B) To the left, because gasoline and tires are complements
- (C) To the right, because gasoline and tires are substitutes
- (D) To the right, because gasoline and tires are complements
- (E) To the right, because an increase in the price of gasoline makes consumers poorer and thus not willing to pay as much for tires

6. Assume that coal is a normal good. If the price of coal increases and the quantity sold increases, which of the following is consistent with these observations?

- (A) The price of oil increased, oil and coal being substitutes.
- (B) A wage increase was given to coal miners.
- (C) New machinery made coal mining more efficient.
- (D) Consumers' incomes fell.
- (E) The demand curve is inelastic.

7. During a football game, it starts to rain and the temperature drops. The senior class, which runs the concession stand and is studying economics, raises the price of coffee from 50 cents to 75 cents a cup. They sell more than ever before. Which answer explains this?
- (A) The supply of coffee increased.
(B) The demand curve for coffee was elastic.
(C) The supply of coffee decreased.
(D) The demand for coffee increased.
(E) The demand curve for coffee was inelastic.

8. Which of the following statements best reflects the law of *diminishing marginal utility*?

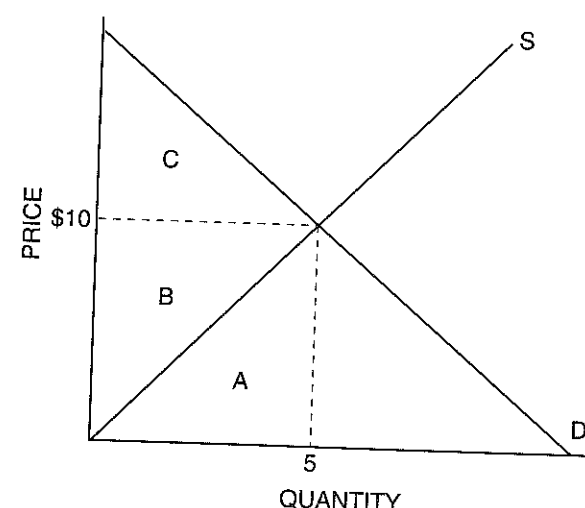
- (A) "I have to have a scoop of ice cream on my pie."
(B) "I'll never get tired of your cooking."
(C) "The last bite tastes just as good as the first."
(D) "I couldn't eat another doughnut if you paid me."
(E) "I prefer to eat several small meals a day, rather than three large ones."

9. Which of the following will *not* cause the demand curve for athletic shoes to shift?

- (A) A change in tastes for athletic shoes
(B) Widespread advertising campaign for athletic shoes
(C) Increase in money incomes of athletic-shoe consumers
(D) Expectations that the price of athletic shoes will decrease in the future
(E) A decrease in the price of athletic shoes

10. Assume that the demand for apples is downward sloping. If the price of apples falls from \$.80 per pound to \$.65 per pound, which of the following will occur?

- (A) A smaller quantity of apples will be demanded.
(B) A larger quantity of apples will be demanded.
(C) Demand for apples will decrease.
(D) Demand for apples will increase.
(E) Supply of apples will decrease.



11. On the graph above, what area represents consumer surplus when the price is \$10?

- (A) A
(B) B
(C) C
(D) A and B
(E) B and C

12. If the cost of producing automobiles increases, the price, equilibrium quantity and consumer surplus will most likely change in which of the following ways?

Price	Quantity	Consumer Surplus
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- | | | |
|--------------|----------|----------|
| (A) Increase | Increase | Increase |
| (B) Increase | Increase | Decrease |
| (C) Increase | Decrease | Decrease |
| (D) Decrease | Increase | Decrease |
| (E) Decrease | Decrease | Decrease |

13. Compare 2000 with 2001. Which of the following statements is (are) true?

Year	Quantity Sold	Price
2000	30,000	\$10
2001	50,000	\$20

- I. Demand has increased.
II. Quantity demanded has increased.
III. Supply has increased.
IV. Quantity supplied has increased.
V. Supply has decreased.

- (A) I only
(B) V only
(C) I and IV only
(D) I and V only
(E) I, II and III only

14. Producer surplus is the

- (A) area under the supply curve to the left of the amount sold.
(B) area under the supply curve to the right of the amount sold.
(C) amount the seller is paid plus the cost of production.
(D) amount the seller is paid less the cost of production.
(E) cost to sellers of participating in a market.

15. During the 1990s, the price of VCRs fell by about 30 percent, and quantity sold decreased by the same amount. The demand for VCRs must

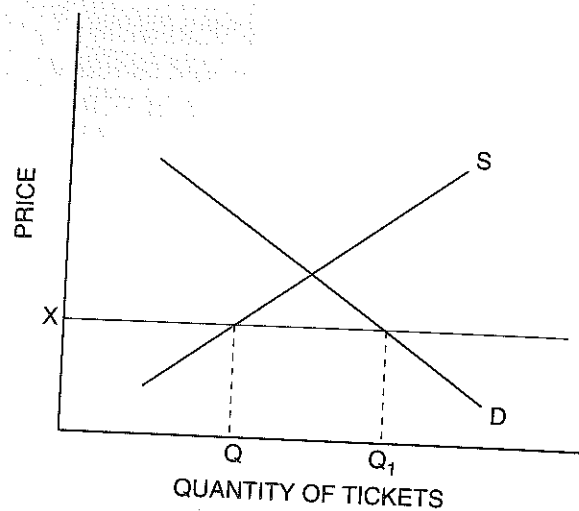
- (A) be inelastic.
(B) be elastic.
(C) be unit elastic.
(D) have shifted to the right.
(E) have shifted to the left.

16. Which of the following will occur if a legal price floor is placed on a good below its free-market equilibrium?

- (A) Surpluses will develop.
(B) Shortages will develop.
(C) Underground markets will develop.
(D) The equilibrium price will ration the good.
(E) The quantity sold will increase.

17. A marketing survey shows that gate receipts would increase if the price of tickets to a summer rock concert increased, even though the number of tickets sold would fall. What does this imply about the price elasticity of demand for concert tickets?

- (A) Demand is inelastic.
(B) Demand is elastic.
(C) Demand is unit elastic.
(D) Demand is perfectly inelastic.
(E) Demand is perfectly elastic.



18. According to the graph above, which of the following will occur if a legal price ceiling is imposed at price X?

- (A) Shortages will occur.
- (B) Surpluses will occur.
- (C) Demand will increase.
- (D) Q_1 will be purchased.
- (E) Supply will decrease.

19. Which of the following statements about price controls is true?

- (A) A price ceiling causes a shortage if the ceiling price is above the equilibrium price.
- (B) A price floor causes a surplus if the price floor is below the equilibrium price.
- (C) A price ceiling causes an increase in demand if the ceiling price is set below the equilibrium price.
- (D) A price ceiling causes a decrease in demand if the price floor is set above the equilibrium price.
- (E) Price ceilings and price floors result in a misallocation of resources.

20. If the price of lunch at the school cafeteria increases and cafeteria revenue remains constant, the elasticity of demand for a school lunch must be

- (A) elastic.
- (B) perfectly elastic.
- (C) unit elastic.
- (D) inelastic.
- (E) perfectly inelastic.

21. If an excise tax is imposed on a product, consumer surplus and producer surplus for this good will most likely change in which of the following ways?

	Consumer Surplus	Producer Surplus
(A) Decrease	Decrease	Decrease
(B) Decrease	Increase	Increase
(C) Decrease	Not change	Not change
(D) Not change	Increase	Increase
(E) Not change	Not change	Not change

22. If the price of paperback books increases and consumer expenditures on paperback books also increase, which of the following is necessarily true?

- (A) Paperback books are normal goods.
- (B) Paperback books are inferior goods.
- (C) The demand for paperback books is unit elastic.
- (D) The demand for paperback books is elastic.
- (E) The demand for paperback books is inelastic.

23. The substitution effect causes a consumer to buy less of a product when the price increases because the

- (A) product is now less expensive compared to similar products.
- (B) product is now more expensive compared to similar products.
- (C) consumer's real income has decreased.
- (D) consumer's real income has increased.
- (E) consumer will buy more inferior goods and fewer normal goods.

Product	% Change in Income	% Change in Quantity
A	+5	+5
B	+5	-5
C	-10	-5
D	-10	+10

24. Based on the information in the table above, which product(s) is/are inferior?

- (A) Product A only
- (B) Product B only
- (C) Product D only
- (D) Product A and C only
- (E) Product B and D only

25. Brooke is spending all of her income consuming products X and Y. If $MU_x / P_x = 10$ and $MU_y / P_y = 6$, what should Brooke do to maximize her satisfaction?

- (A) Buy more X and more Y.
- (B) Buy more X and less Y.
- (C) Buy less X and less Y.
- (D) Buy less X and more Y.
- (E) Make no changes.

26. If the price of a good decreases by 3 percent and total revenue increases, the elasticity of demand for the good could possibly be

- (A) 1.3
- (B) 1
- (C) 0.8
- (D) 0.2
- (E) 0

27. Advocates of higher minimum wages for unskilled labor defend their position by arguing that

- (A) low-income workers deserve to earn incomes above the poverty level.
- (B) higher wages boost worker productivity and efficiency.
- (C) higher wages will cause employers to reduce the payroll, but the total wages of remaining workers will be higher.
- (D) higher wages induce more workers into the labor market and thus reduce unemployment.
- (E) it is more efficient for the private sector to provide a higher wage than for the government to provide transfer payments to low-income workers.